

# Expansion in U.S. Investments Abroad

**Record capital flow and earnings in 1961—Total value \$56 billion—**

**Reduced outflows indicated for 1962**

**T**HE outflow of U.S. private capital to foreign countries reached a high of nearly \$4.0 billion in 1961, about \$100 million above the mark of the previous year. Direct investments accounted for \$1½ billion, net purchases of foreign securities and medium-term loans for about \$1.0 billion, and short-term loans and acquisitions of liquid assets abroad for \$1½ billion.

In broad outline, foreign investments in 1961 resembled the 1960 pattern. For direct investments the flow was still strong to Europe, but the total and the European sector were not pushed up, as in 1960, by any large single investment; the principal changes in direct investments from year-to-year were a reduced flow to Canada and a sharp upturn to enterprises in the Middle East, some parts of Africa, and Australia.

Purchases of foreign securities rose slightly to \$750 million (net), with the share of Canada less than in earlier postwar years, and a rising share for Europe and other countries. Outflows of short-term capital reached a new high in 1961, led by large investments of banking and other short-term capital in Canada and Japan, while the flow to Europe lessened considerably from the 1960 amount.

By the end of 1961 private U.S. assets and investments abroad were valued at nearly \$56 billion, a gain of over \$5 billion in the year. Most of the change came from the investment of additional U.S. capital outlined above, but other increases resulted from the reinvestment of \$1.0 billion of direct investment earnings and some revaluations of assets.

## **Developments in 1962**

Since the turn of the year the limited data available indicate some slowing down in the rate of foreign investment,

although the total remains well above all but a few postwar years. Direct investments are affected by the much reduced rate of growth of industrial production in Europe, by unsettled conditions in some countries of Latin America, economic difficulties in Canada, and more than adequate productive capabilities for raw materials at current levels of demand. On the other hand, the companies have ample funds for investment which are not being committed to domestic expansion, and are continuing to invest large sums abroad where opportunities exist.

Investments in foreign equity securities have tended to taper off as markets in most financial centers abroad have been weak, and a realignment of prices and yields appear to be taking place both here and abroad. Overall sales of foreign bonds in the United States have been relatively low so far this year, but there has been a significant increase in issues offered by European borrowers.

Short-term capital outflows in the first half of 1962 were moderate, and were largely connected with loans negotiated earlier for Japan. On balance, there were reductions in short-term foreign loans of U.S. banks in Canada and Europe.

For both portfolio and short-term investments abroad, the United States remains the most accessible and lowest cost capital market. Interest rates here may tend to harden somewhat, but short-term rates have also been rising recently in other financial centers, so that the basic incentives for capital outflows remain. Some large borrowers, however, have possibly reached a ceiling on the amount of indebtedness considered justified by their ability to repay, while others, notably Canada, may now have become more attractive than in the first half of the year.

## **Income receipts higher**

Income received from private foreign investments advanced by over \$400 million to \$3.3 billion in 1961. Three quarters of the increase came from direct investments and reflected not only higher earnings but also for some countries a larger proportion of earnings paid out as dividends.

Interest and dividends received on short-term and portfolio investments rose by over \$100 million in 1961, offsetting to some degree the large capital outflows of these types in the past few years.

## **Foreign Direct Investments**

U.S. business added another \$2½ billion to investments in foreign subsidiaries, branches, and affiliated companies in 1961, made up of capital outflows of \$1½ billion and about \$1.0 billion of undistributed profits. The total added from these sources was about \$½ billion less than in 1960, with capital flows and undistributed

profits each lower by about \$¼ billion. Since the 1960 capital flow included \$370 million for a single investment in the United Kingdom, there was some increase in other flows. Undistributed profits were reduced mainly because dividends were raised substantially by manufacturing companies while earnings were only slightly higher.

The 1961 annual rate of additions to investment was exceeded only in 1960, and in the postwar peaks of 1956-57. In the latter period the rate of investment was especially high in the petroleum industry as new producing properties were acquired and developed, and there were also substantial investments by other industries. In 1960, manufacturing investments in Europe were the leading feature. The advance in 1961 was more evenly distributed among the principal industries, with investments in petroleum and manufacturing each being increased by about \$0.9 billion, while in other industries a slower but relatively steady rate of increase was maintained.

Some sizable adjustments were made to the valuations of direct investments as of the end of 1961, which had the net effect of reducing the aggregate book value by about \$0.6 billion. The largest change resulted from eliminating from these tabulations Cuban investments with a book value of \$956 million at the end of 1960. No information on these investments has been available since they were expropriated, for the most part during 1960. There was also some reduction in book values of enterprises in other countries particularly in Latin America. Offsetting these adjustments, there were upward revaluations of \$586 million, of which the largest was a \$406 million increase in the book value of the net fixed assets of a large enterprise in the petroleum industry in Venezuela.

After giving effect to the additional investments and adjustments just noted, the book value of U.S. direct foreign investments reached a peak of \$34.7 billion at the end of 1961.

### Regional Developments

Nearly \$1.0 billion was added to the European investments of U.S. companies in 1961 (40 percent of the total increment in the year) raising their accumulated book value to \$7.7 billion. Capital flows to Europe amounted to nearly \$0.7 billion, and undistributed profits were about \$0.3 billion.

Though down from the 1960 peak, aggregate capital flows to Europe are shown in the first chart to be far above

the average of earlier years. However, the chart also shows some recent diminution of the capital flow to manufacturing, while petroleum companies have been raising their outlays for several years, mainly to add to refining and distributing capacity. Undistributed profits have been slowly increasing over the postwar period, but were cut back in 1961.

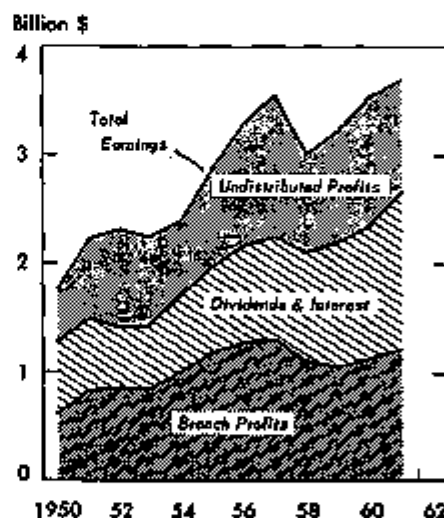
Investments in the Common Market countries were raised by \$0.4 billion last year, about the same amount as in 1960. France, Germany, and Italy each received substantial capital inflows with petroleum investments especially large in Italy and manufacturing in the others. The rate of investment in the United Kingdom by U.S. companies

was reduced in 1961, even after eliminating the special 1960 transaction mentioned above, but the \$0.3 billion added in 1961 ranked second only to the amount for Canada. Nearly one-half of the 1961 investment was added to manufacturing investments and most of the remainder to petroleum.

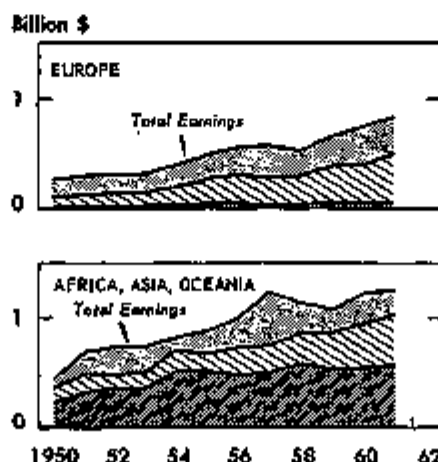
Switzerland stands out among the other European countries, as U.S. direct investments mounted by \$150 million. More than half of this increase was in trading and financial organizations, and a considerable part of these investments is ultimately invested in other countries.<sup>1</sup> However, there is also an impressive rate of growth in enterprises operating mainly within Switzerland.

<sup>1</sup> New information on investment flows among foreign affiliates is now being collected and tabulated.

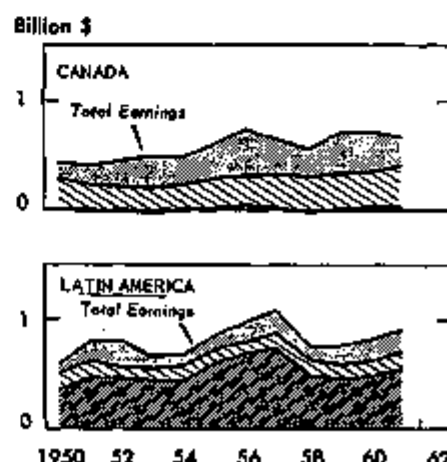
### DIRECT FOREIGN INVESTMENT EARNINGS CONTINUE UP IN 1961 With Larger Proportion Distributed as Dividends



Major Gains in Europe and Other Eastern Hemisphere



Earnings in Western Hemisphere Lagging Since 1956-57



U.S. Department of Commerce, Office of Business Economics

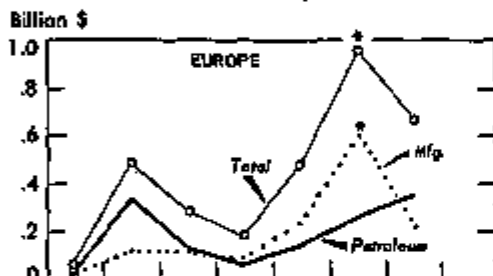
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### Slow pace in Latin America

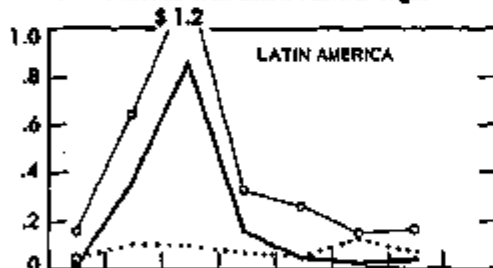
Capital flows to Latin America registered some improvement in 1961 over the low point of 1960, amounting to \$141 million. However, nearly all of this investment flow occurred in the first half of the year. After mid-year, net outflows of capital ceased as continued investments to Argentina, Mexico, and Chile for manufacturing and mining investments were offset by net inflows from Venezuela (petroleum) and Brazil (manufacturing), and to a lesser extent, from various of the smaller Caribbean countries. In other countries no strong changes were discernible.

### DIRECT INVESTMENT CAPITAL OUTFLOWS, 1950-61

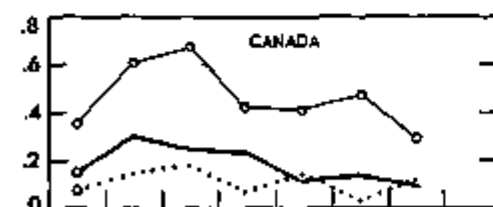
Europe Shows Strong Upturn Since 1955;  
Petroleum Investments Up in 1961



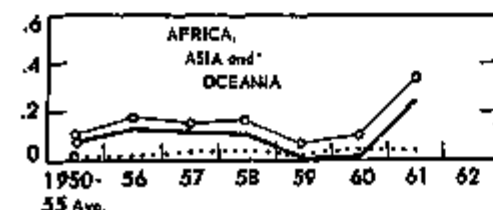
Latin America Well Below Postwar High



Canadian Flow Has Tended Downward



Petroleum Investments Support Sharp Rise in Africa and Asia



\* Includes single investment of \$370 million  
U.S. Department of Commerce, Office of Business Economics

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Notable shifts in 1961 were an increase in capital flows into mining operations, and a decline in the volume going into manufacturing enterprises. In the mining industry, there were relatively small investments in Venezuela, Peru, and in other countries in 1961, contrasting with a sizable return to the United States of funds from some of these mining properties in 1960, resulting in a swing of about \$100 million in this industry over the 2-year period. In the manufacturing industry, outflows to Argentina increased for the fourth successive year, reaching a widening range of industrial and consumer commodities, while the flow of new capital to Brazil dwindled to less than \$1 million from \$52 million in 1960.

Reinvestment of subsidiary earnings in the area remained stable at a little over \$200 million in 1961, showing little change in individual industries or in the area totals despite a moderate increase in earnings. However, on a country basis, Argentina, Mexico, and Panama showed a larger volume of reinvestment, while Venezuela's total was off by about \$20 million, as some holding companies with sizable earnings were shifted from Venezuela to Switzerland.

### Flow to Canada lower

Both capital flows and reinvested earnings in Canada were reduced in 1961, with the combined total amounting to less than \$0.6 billion compared with nearly \$0.9 billion in 1960. The average annual increase in direct investments in Canada since 1950 has been about \$750 million.

Funds going into manufacturing operations amounted to \$260 million, about the same total as in the past few years. However, a higher proportion in 1961 took the form of capital flows, compensating for a drop in retained earnings.

A considerable flow of funds went into Canadian mining ventures, although the overall total was reduced below the experience of other recent years by an inflow connected with the refinancing of a major project. Petroleum investments also tended downward, to the lowest rate since 1949, reflecting the

completion of major phases of the industry's development. Among the other industry sectors, there was only a minor addition to the amount invested in trade and distribution enterprises, which had been growing relatively fast for some years.

### Other areas receive larger flows

**Africa.**—American companies considerably stepped up investment operations in Africa, adding about \$175 million to their investment in 1961 compared with \$130 million in 1960. Reinvestment remained steady at about \$50 million, but capital flows continued to increase and exceeded \$100 million, nearly all in North Africa.

With oil companies approaching large-scale production in Libya and adjoining North African areas, a continuation of considerable investment activity will be needed to provide the necessary production, transportation, storage and service facilities. Since 1954, the U.S. companies have invested over \$4 billion to develop the oil resources of this area. Much of the investment is not reflected in the book value figures, since it was accounted for as operating expenses. A small but significant increase in flows for mining operations occurred in 1961, as a number of companies entered the early stages of major mining developments in West Africa.

**Asia.**—With continued increases in oil production in the Middle East, a renewed flow of capital was recorded to the area, both for fixed investment to increase production facilities and to finance increased receivables from affiliates and customers. In the Far East, a continued but modest increase in manufacturing investments was more than offset by a declining volume of new investments in petroleum operations.

**Oceania.**—Direct investments in Australia continued to grow at a rate of about \$100 million per year. A decline in reinvestment of earnings of manufacturing companies by \$40 million was due to declining profits and a higher proportion of pay-out of dividends, but oil companies increased their investment in refining and other

product lines, and in distribution facilities.

Completion of some phases of current development work on mining and petroleum in the Western Hemisphere dependencies sharply reduced capital flows and reinvested earnings in this area.

### Developments by Industry

Domestic manufacturing companies invested an additional \$0.9 billion in manufacturing facilities abroad in 1961, bringing the accumulated total invested in foreign plants to nearly \$12.0 billion. This was substantially less than the record increases of 1959-60, but about the same as the annual rate of investment since 1955.

#### Large share of manufacturing to Europe

Europe received over 40 percent of the manufacturing investment in 1961, rising from about 30 percent of the total in 1953-57. Data collected on actual and projected expenditures for plant and equipment by U.S.-owned plants in the area<sup>2</sup> show a substantial rise in 1961-62 from the 1960 amount, but there appears to have been some cutback from the earlier expectations. As a result, the need for capital from the United States may stabilize or be reduced.

Manufacturing investments in Canada appear to be holding steady, with additions amounting to about \$0.3 billion annually. Projected plant and equipment expenditures show a similar lack of movement. For Latin America, the principal manufacturing activity is now in Argentina and Mexico, with investments in Brazil much reduced from earlier levels. In the rest of the world there was some increase in manufacturing investments in Japan, but the flow to Australia diminished in 1961.

In most of the major commodity groupings of manufacturing shown in table 5, the rate of growth in investments was either lower than in 1960,

or showed only small advances. Investments in chemical plants registered the largest increase in 1961 (\$130 million), but this was not much more than half the 1960 amount. Moreover, the 1961 figure includes a sizable jump in investments by oil companies in affiliates producing petrochemicals.

Increases of over \$100 million each were scored by the transportation equipment, machinery, and primary metals groups, but only the latter had a larger gain than in 1960.

**Petroleum.**—Capital flows and reinvested earnings of the petroleum industry in 1961 were in excess of \$900 million, making this the highest year since 1957. An additional \$430 million was added to the book value of investments in this industry because of various adjustments, the largest being a revaluation by a large company of net fixed assets in Venezuela amounting to \$406 million.

More than 40 percent of the investment in 1961 went to Europe to expand refining and distribution facilities, excluding investments in petrochemical plants mentioned above. Projections of plant and equipment expenditures show a continuation of outlays at a high level in Europe, underlining the present need of the petroleum industry to develop refining and distribution facilities in European and other markets. In earlier periods of high investment activity by this industry, such as 1947-49 and 1956-57, the main portion of oil investments went for the acquisition and exploration of producing areas, mainly in Latin America and the Middle East.

North Africa remains the most active area for the development of new oil fields, and about \$100 million was spent here in 1961 to find and develop new oil resources and to prepare them for large scale production. Sizable amounts were also spent for this purpose in Canada, Argentina, the Middle East, Australia, and, to a lesser extent, in a number of other countries.

**Trade and distribution.**—Substantial investments in trading and distribution facilities abroad continued in 1961, with \$0.3 billion added in the year.

About a third of the increase was in Panama and Switzerland.

In 1961, the book value shown under the heading of public utilities was reduced by about \$375 million. This reflects in part the elimination of Cuban properties (\$313 million) and the transfer to "miscellaneous" of utility investments in Argentina and Mexico which were acquired by those countries in 1961, with the sales proceeds to be reinvested locally over a period of years. Offsetting these reductions, there were sizable additions to investments in international shipping out of undistributed profits.

### Limited Gain in Foreign Earnings

Earnings of direct foreign investments advanced by a little over 4 percent in 1961 to a record \$3.7 billion. Petroleum companies earned \$1.4 billion, with higher earnings reflecting a 4 percent increase in their output of crude oil.

As in the past, earnings in the petroleum industry show up mainly in the producing areas, with 1961 increases large in Canada, Venezuela, and the

Table 1.—Factors Affecting U.S. Private Investments Abroad, 1960 and 1961.

(Millions of dollars)

Type of investment	1960	1961
<b>Direct investments</b>		
Value, beginning of year.....	20,837	32,778
Add: Capital outflow 1.....	1,091	1,407
Reinvested earnings.....	1,260	1,640
Other adjustments 2.....	-9	-807
Value, end of year.....	32,778	34,918
<b>Other long-term private investments</b>		
Value, beginning of year.....	11,417	12,032
Add: Capital outflow 1.....	850	1,000
Price changes.....	385	745
Value, end of year.....	12,652	13,777
<b>Short-term assets</b>		
Value, beginning of year.....	2,590	4,063
Add: Capital outflow 1.....	1,329	1,472
Adjustments 2.....	-48	135
Value, end of year.....	3,871	5,670
<b>Combined change</b> .....	5,558	5,281
Capital outflow 1.....	3,270	3,879
Reinvested earnings.....	1,260	1,640
Other factors.....	408	272

1. Included in the balance of payments accounts.

2. Mostly changes in coverage, reclassifications, or revaluations (see note in Table 2).

2. Survey of Current Business for September 1961 and forthcoming issue of September 1962.

Table 2.—Value of Direct Investments Abroad by  
Table 3.—Direct-Investment Capital Flow and Undistributed Subsidiary  
Table 4.—Direct-Investment Earnings and Income,<sup>1</sup>

(Millions of dollars)

Line	Area and country	Table 2										Table 3						
		1950	1957	1959	1960*	1961*						Net capital outflows						
						Total	Mining and smelting	Petroleum	Manufacturing	Public utilities	Trade	Other	1960*	Total	Mining and smelting	Petroleum	Manufacturing	Other
1	All areas, total	11,788	25,284	20,827	22,773	34,684	3,061	12,151	11,328	2,368	2,448	2,722	1,694	1,467	73	747	400	158
2	Canada	2,579	8,769	10,316	11,136	11,864	1,380	2,841	5,093	687	679	1,364	471	287	12	99	122	65
3	Latin American Republics, total <sup>1</sup>	4,485	7,434	5,125	5,387	5,165	1,186	3,237	1,685	664	765	322	85	141	34	25	73	5
4	Mexico, Central America and West Indies, total	1,488	2,224	2,038	2,042	1,773	151	193	440	186	206	409	68	43	-2	23	20	1
5	Cuba	642	840	950	950	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
6	Dominican Republic	104	33	104	105	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
7	Guatemala	100	100	123	131	120	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
8	Honduras	10	105	110	100	95	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
9	Mexico	415	729	758	795	422	130	48	414	26	97	104	11	45	1	16	12	12
10	Panama	25	281	327	465	488	17	64	12	21	189	105	30	2	1	1	1	1
11	Other countries	106	143	151	151	136	12	28	12	40	12	52	2	2	(*)	(*)	(*)	(*)
12	South America, total	2,957	5,266	5,561	5,746	6,394	354	1,025	1,267	478	483	215	27	99	3	88	38	7
13	Argentina	350	333	380	472	634	(*)	(*)	283	(*)	28	324	20	30	(*)	(*)	(*)	(*)
14	Brazil	944	835	828	963	1,006	(*)	(*)	548	(*)	186	127	25	23	(*)	(*)	(*)	(*)
15	Chile	540	906	720	739	723	(*)	(*)	27	(*)	13	183	16	15	(*)	(*)	(*)	(*)
16	Colombia	193	300	401	424	425	(*)	(*)	220	(*)	58	50	24	1	(*)	(*)	(*)	(*)
17	Peru	145	733	428	448	437	(*)	(*)	71	(*)	20	43	23	7	(*)	(*)	(*)	(*)
18	Uruguay	55	57	45	47	49	(*)	(*)	22	(*)	5	25	5	(*)	(*)	(*)	(*)	(*)
19	Venezuela	903	2,465	2,600	2,508	2,017	(*)	(*)	198	(*)	83	186	281	110	(*)	(*)	(*)	(*)
20	Other countries	31	64	96	97	106	(*)	(*)	56	(*)	14	7	19	(*)	(*)	(*)	(*)	(*)
21	Western Hemisphere dependencies	131	618	745	884	942	279	493	33	9	77	212	54	27	1	15	1	10
22	Europe, total	1,733	4,151	6,323	6,881	7,855	48	2,431	4,212	47	289	325	362	670	(*)	350	227	89
23	Common Market, total	637	1,660	2,208	2,544	3,041	0	946	1,650	20	200	200	232	220	(*)	109	132	30
24	Belgium and Luxembourg	69	192	211	231	236	(*)	(*)	56	(*)	1	22	18	15	(*)	2	10	3
25	France	217	464	640	741	810	(*)	(*)	244	(*)	10	92	25	53	(*)	10	49	12
26	Germany	204	581	798	1,006	1,170	(*)	(*)	222	(*)	2	93	35	153	(*)	45	45	4
27	Italy	63	232	315	384	467	(*)	(*)	215	(*)	1	38	25	35	(*)	59	14	5
28	Netherlands	84	181	245	259	283	(*)	(*)	154	(*)	15	44	30	11	(*)	17	14	4
29	Other Europe, total	1,096	2,471	3,116	4,037	4,514	39	1,185	2,563	17	691	229	688	405	(*)	251	95	60
30	Denmark	32	42	48	67	95	(*)	(*)	61	(*)	11	2	19	37	(*)	25	1	1
31	Norway	24	31	53	53	92	(*)	(*)	40	(*)	7	16	18	6	(*)	5	5	2
32	Spain	31	44	53	50	63	(*)	(*)	21	(*)	2	12	4	4	(*)	3	4	2
33	Sweden	58	109	125	110	140	(*)	(*)	77	(*)	21	36	6	7	(*)	16	8	6
34	Switzerland	25	60	104	244	406	(*)	(*)	42	(*)	123	103	80	27	(*)	41	25	35
35	Turkey	10	63	44	50	98	(*)	(*)	33	(*)	3	7	19	12	(*)	29	1	3
36	United Kingdom	347	1,974	2,477	3,251	3,523	(*)	(*)	791	(*)	10	310	331	185	(*)	129	58	3
37	Other countries	65	149	145	102	160	(*)	(*)	93	(*)	3	41	12	15	(*)	11	3	3
38	Africa, total	287	654	833	925	1,076	285	491	113	4	53	112	51	122	(*)	88	11	1
39	North Africa	55	106	145	155	200	3	336	6	4	5	51	51	91	(*)	13	1	1
40	East Africa	12	36	43	46	54	(*)	(*)	51	(*)	2	4	1	1	(*)	8	1	3
41	West Africa	42	147	228	298	341	155	82	2	(*)	30	60	42	30	(*)	1	1	1
42	Central and South Africa, total	177	361	416	394	412	127	128	100	(*)	42	17	13	1	(*)	1	1	1
43	Rhodesia and Nyasaland	26	69	72	63	87	(*)	(*)	(*)	(*)	2	16	1	1	(*)	1	1	1
44	Union of South Africa <sup>2</sup>	190	301	328	290	304	50	60	(*)	(*)	39	112	15	1	(*)	1	1	1
45	Other countries	19	21	31	20	21	(*)	(*)	(*)	(*)	2	17	4	1	(*)	1	1	1
46	Asia, total	1,081	2,679	2,247	2,291	2,452	27	1,750	321	135	153	117	120	122	(*)	168	19	5
47	Middle East	682	1,136	1,212	1,129	1,256	(*)	(*)	1,191	(*)	25	4	0	122	(*)	164	1	1
48	Far East, total	399	881	1,035	1,162	1,241	(*)	(*)	559	(*)	111	144	106	98	(*)	104	17	1
49	India	35	123	154	159	169	(*)	(*)	85	(*)	2	18	15	15	(*)	15	1	1
50	Indonesia	38	109	163	175	167	(*)	(*)	12	(*)	1	139	2	37	(*)	1	1	1
51	Japan	19	155	368	224	316	(*)	(*)	120	(*)	1	30	18	18	(*)	1	1	1
52	Philippine Republic	149	265	367	414	436	(*)	(*)	50	(*)	104	55	191	6	(*)	1	1	1
53	Other countries	46	109	131	147	154	(*)	(*)	19	(*)	4	20	35	35	(*)	1	1	1
54	Oceania, total	234	698	878	994	1,301	26	423	545	1	65	57	41	50	(*)	33	23	23
55	Australia	281	583	742	850	1,051	26	423	545	(*)	47	268	16	50	(*)	33	23	23
56	New Zealand	25	43	54	63	85	(*)	(*)	17	(*)	18	27	25	25	(*)	1	1	1
57	Other countries	28	62	82	81	65	(*)	(*)	(*)	(*)	(*)	57	(*)	(*)	(*)	(*)	(*)	(*)
58	International	256	1,041	1,337	1,418	1,463	(*)	(*)	845	(*)	597	(*)	12	15	(*)	1	(*)	(*)

\* Revised. \* Preliminary. \* Combined in other industries. \*\* Less than \$500,000.

Note.—Detail may not add to totals because of rounding.  
1. Data for table 3 for 1961 exclude Cuba which was carried for the year 1960 at \$500 million.  
The tables on net capital outflows, reinvested subsidiary earnings, earnings and income, exclude Cuba for both years.

2. The value of direct investments in Venezuela in 1961 has been raised by \$400 million because of the revaluation of plant and equipment of a major oil company.

3. The value of direct investments in the Union of South Africa has been adjusted downward by \$37 million because of the loss suffered by an American mining company in the liquidation of those South African operations.

Selected Countries and Years, and Major Industries, 1961  
Earnings, by Selected Countries, with Major Industries for 1961  
by Selected Countries, with Major Industries for 1961

(Millions of dollars)

Table 3—Continued						Table 4										Line			
Undistributed subsidiary earnings						Earnings					Income								
1960 *	1961 *					1960 *	1961 *				1960 *	1961 *							
Total	Mining and smelting	Petroleum	Manufacturing	Other		Total	Mining and smelting	Petroleum	Manufacturing	Other	Total	Mining and smelting	Petroleum	Manufacturing	Other				
1,366	1,044	63	169	437	387	3,585	3,700	389	1,449	1,180	711	2,325	2,672	296	1,303	730	364	1	
339	354	37	51	141	55	738	884	80	121	340	333	381	683	48	74	212	73	2	
214	221	6	28	83	23	823	938	141	138	182	283	641	711	139	387	87	308	3	
52	71	(*)	7	0	55	120	151	10	12	33	90	85	67	16	5	33	43	4	
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	5
1	2	(*)	(*)	(*)	(*)	8	12	(*)	(*)	(*)	(*)	7	(*)	(*)	(*)	(*)	(*)	(*)	6
1	1	(*)	(*)	(*)	(*)	1	1	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	7
46	56	(*)	(*)	(*)	(*)	54	69	(*)	(*)	(*)	(*)	63	43	(*)	(*)	(*)	(*)	(*)	8
3	4	(*)	(*)	(*)	(*)	4	11	(*)	(*)	(*)	(*)	1	20	(*)	(*)	(*)	(*)	(*)	9
163	169	(*)	(*)	(*)	(*)	703	758	(*)	(*)	(*)	(*)	556	624	(*)	(*)	(*)	(*)	(*)	10
35	39	(*)	(*)	(*)	(*)	46	55	(*)	(*)	(*)	(*)	10	34	(*)	(*)	(*)	(*)	(*)	11
7	1	(*)	(*)	(*)	(*)	7	11	(*)	(*)	(*)	(*)	15	35	(*)	(*)	(*)	(*)	(*)	12
5	5	(*)	(*)	(*)	(*)	72	83	(*)	(*)	(*)	(*)	22	38	(*)	(*)	(*)	(*)	(*)	13
11	7	(*)	(*)	(*)	(*)	25	29	(*)	(*)	(*)	(*)	19	22	(*)	(*)	(*)	(*)	(*)	14
2	2	(*)	(*)	(*)	(*)	63	66	(*)	(*)	(*)	(*)	13	15	(*)	(*)	(*)	(*)	(*)	15
98	38	(*)	(*)	(*)	(*)	4	4	(*)	(*)	(*)	(*)	2	2	(*)	(*)	(*)	(*)	(*)	16
1	2	(*)	(*)	(*)	(*)	11	17	(*)	(*)	(*)	(*)	271	422	(*)	(*)	(*)	(*)	(*)	17
63	35	(*)	(*)	(*)	(*)	141	223	(*)	(*)	(*)	(*)	78	24	(*)	(*)	(*)	(*)	(*)	18
283	314	(*)	(*)	(*)	(*)	359	341	(*)	(*)	(*)	(*)	237	237	(*)	(*)	(*)	(*)	(*)	19
154	127	(*)	(*)	(*)	(*)	318	341	(*)	(*)	(*)	(*)	144	144	(*)	(*)	(*)	(*)	(*)	20
18	36	(*)	(*)	(*)	(*)	25	43	(*)	(*)	(*)	(*)	21	21	(*)	(*)	(*)	(*)	(*)	21
6	7	(*)	(*)	(*)	(*)	72	72	(*)	(*)	(*)	(*)	22	22	(*)	(*)	(*)	(*)	(*)	22
14	14	(*)	(*)	(*)	(*)	148	153	(*)	(*)	(*)	(*)	104	104	(*)	(*)	(*)	(*)	(*)	23
7	7	(*)	(*)	(*)	(*)	38	37	(*)	(*)	(*)	(*)	23	23	(*)	(*)	(*)	(*)	(*)	24
208	188	(*)	(*)	(*)	(*)	489	504	(*)	(*)	(*)	(*)	263	263	(*)	(*)	(*)	(*)	(*)	25
(*)	(*)	(*)	(*)	(*)	(*)	0	0	(*)	(*)	(*)	(*)	4	4	(*)	(*)	(*)	(*)	(*)	26
3	3	(*)	(*)	(*)	(*)	5	5	(*)	(*)	(*)	(*)	2	2	(*)	(*)	(*)	(*)	(*)	27
4	4	(*)	(*)	(*)	(*)	7	7	(*)	(*)	(*)	(*)	3	3	(*)	(*)	(*)	(*)	(*)	28
1	1	(*)	(*)	(*)	(*)	10	10	(*)	(*)	(*)	(*)	11	11	(*)	(*)	(*)	(*)	(*)	29
25	32	(*)	(*)	(*)	(*)	48	48	(*)	(*)	(*)	(*)	14	14	(*)	(*)	(*)	(*)	(*)	30
3	3	(*)	(*)	(*)	(*)	1	1	(*)	(*)	(*)	(*)	1	1	(*)	(*)	(*)	(*)	(*)	31
160	116	(*)	(*)	(*)	(*)	375	372	(*)	(*)	(*)	(*)	217	217	(*)	(*)	(*)	(*)	(*)	32
7	12	(*)	(*)	(*)	(*)	24	27	(*)	(*)	(*)	(*)	17	16	(*)	(*)	(*)	(*)	(*)	33
68	61	(*)	(*)	(*)	(*)	31	28	(*)	(*)	(*)	(*)	57	57	(*)	(*)	(*)	(*)	(*)	34
2	2	(*)	(*)	(*)	(*)	189	171	(*)	(*)	(*)	(*)	171	171	(*)	(*)	(*)	(*)	(*)	35
18	21	(*)	(*)	(*)	(*)	37	37	(*)	(*)	(*)	(*)	15	15	(*)	(*)	(*)	(*)	(*)	36
27	26	(*)	(*)	(*)	(*)	68	68	(*)	(*)	(*)	(*)	41	47	(*)	(*)	(*)	(*)	(*)	37
10	6	(*)	(*)	(*)	(*)	19	14	(*)	(*)	(*)	(*)	10	10	(*)	(*)	(*)	(*)	(*)	38
17	20	(*)	(*)	(*)	(*)	40	39	(*)	(*)	(*)	(*)	34	39	(*)	(*)	(*)	(*)	(*)	39
(*)	(*)	(*)	(*)	(*)	(*)	12	12	(*)	(*)	(*)	(*)	18	18	(*)	(*)	(*)	(*)	(*)	40
84	85	(*)	(*)	(*)	(*)	314	328	(*)	(*)	(*)	(*)	253	253	(*)	(*)	(*)	(*)	(*)	41
13	15	(*)	(*)	(*)	(*)	734	751	(*)	(*)	(*)	(*)	728	728	(*)	(*)	(*)	(*)	(*)	42
12	7	(*)	(*)	(*)	(*)	181	207	(*)	(*)	(*)	(*)	114	133	(*)	(*)	(*)	(*)	(*)	43
13	15	(*)	(*)	(*)	(*)	14	23	(*)	(*)	(*)	(*)	1	1	(*)	(*)	(*)	(*)	(*)	44
17	19	(*)	(*)	(*)	(*)	70	66	(*)	(*)	(*)	(*)	18	16	(*)	(*)	(*)	(*)	(*)	45
21	27	(*)	(*)	(*)	(*)	32	34	(*)	(*)	(*)	(*)	23	22	(*)	(*)	(*)	(*)	(*)	46
3	3	(*)	(*)	(*)	(*)	12	22	(*)	(*)	(*)	(*)	10	18	(*)	(*)	(*)	(*)	(*)	47
74	20	(*)	(*)	(*)	(*)	115	91	(*)	(*)	(*)	(*)	12	37	(*)	(*)	(*)	(*)	(*)	48
68	3	(*)	(*)	(*)	(*)	104	77	(*)	(*)	(*)	(*)	10	30	(*)	(*)	(*)	(*)	(*)	49
4	2	(*)	(*)	(*)	(*)	11	12	(*)	(*)	(*)	(*)	6	6	(*)	(*)	(*)	(*)	(*)	50
49	80	(*)	(*)	(*)	(*)	47	66	(*)	(*)	(*)	(*)	5	13	(*)	(*)	(*)	(*)	(*)	51

1. Income is the sum of dividends, interest and branch profits; earnings is the sum of the U.S. share in the net earnings of subsidiaries and branch profits.

Table 5.—Direct Investments in Manufacturing Enterprises Abroad, 1959, 1960 and 1961, by commodity group

(Millions of dollars)			
	1959	1960	1961
Manufacturing, total	9,707	11,155	11,306
Food products	823	843	1,019
Paper and allied products	813	831	918
Chemicals and allied products	1,661	1,905	2,030
Rubber products	461	520	528
Primary and fabricated metals	1,103	1,356	1,378
Machinery (except electrical)	1,242	1,333	1,396
Electrical machinery	833	918	1,068
Transportation equipment	1,005	2,118	2,237
Other products	1,148	1,301	1,385

Note: Detail may not add to totals because of rounding.  
1. 1961 data excludes Cuba. These investments were estimated at year-end 1960 at \$11.1 billion, and included \$21 million for food products, \$28 million for chemicals and allied products, \$28 million for the "other products" group and \$31 million for all other manufacturing industries.

Middle East. Earnings on the rapidly growing refinery and distribution installations showed very little gain in 1961. As the newly developed areas in North Africa come into production, earnings will gain both from increased sales and reduced expenses connected with initial exploration and development.

Manufacturing earnings amounting to \$1,180 million were unchanged in 1961 from the 1960 total. A moderate increase in European earnings, mainly in Germany, the Benelux countries and Switzerland, was offset by reduced earnings in Canada, Australia, and Brazil. This interruption of a steady growth in manufacturing earnings reflected lagging economic activity in several countries, and probably also some situations where costs were rising rapidly. Earnings of mining companies which had risen in 1960, dropped back to \$359 million in 1961 as prices for most minerals and metals weakened. Few changes were noted in other industries.

Income receipts from direct investments (dividends, interest, and branch profits) rose to \$2.7 billion in 1961, more than \$300 million above the 1960 figure. Most of the gain reflected an increase of \$220 million in dividend receipts, largely from manufacturing firms. Subsidiary earnings did not materially improve, so that the rate of dividend pay-out in 1961 was the highest since 1950. The rate of reinvestment for all subsidiary earnings was 46 percent in 1961 and for manufacturing operations it was 44 percent. By comparison, the average rate of rein-

vestment for the 1951-60 period was about 56 percent.

#### Fees and royalties increase rapidly

In addition to receipts in the form of dividends, interest, and branch profits, U.S. parent companies are receiving from their foreign affiliates substantial amounts in payment for management services of various kinds or for the use of patents, copyrights, and similar intangible property. By 1961, this flow was approaching \$0.4 billion annually, and was continuing to rise more rapidly than amounts labelled "income."

#### Other Private Investments

Outflows of private U.S. capital other than those connected with direct investments have become important factors in our balance of payments in the past 2 years. Such flows include purchases of foreign securities, bank loans of varying maturities, financing of foreign trade and other international transactions, and transfers of cash funds into higher-yielding liquid assets abroad. Taken together, recorded outflows of these types averaged \$0.3 billion in the 1950-55 period, \$1.3 billion in the years 1956-59, and then rose sharply to \$2.2 billion in 1960 and a record \$2.5 billion in 1961.

The leading feature of the upsurge in 1960-61 was the rise in lending by banks, and, to a lesser extent, by industrial corporations. As shown in table 6, a major share of this lending was directed to Japan, and represented primarily acceptance credits at substantially higher interest rates than prevail domestically. The enlarged flow to Europe in 1960, and the sharp drop to that area in 1961, were largely related to fluctuations in the relative attractiveness of interest rates in the United Kingdom, although the recorded flows were not very great. Canada received a sizable amount of corporate cash funds in 1961 and again in the early part of 1962, reflecting higher interest rates paid on deposits in Canadian banks and certain tax advantages. Increases in short-term financing to Latin America in these 2 years were fairly typical of experience since 1950.

U.S. banks, and to a lesser extent nonfinancial corporations, have been expanding their longer-term foreign loans or credits at an annual rate of over \$200 million since 1955. Banks added \$1.4 billion to their foreign credits during these years, of which about half went to Latin America, mainly Brazil, Venezuela, and Mexico, and about \$350 million to Europe, including substantial amounts to finance Norway's shipping industry.

Sizable purchases of foreign securities have also been a consistent feature of the U.S. balance of payments beginning in 1956, averaging nearly \$0.8 billion a year since then. In most years purchases of foreign bonds have predominated, reaching a high of about \$1 billion in 1958, when our interest rate structure was exceptionally low. In 1961 net purchases of foreign bonds were reduced to about \$0.4 billion, featured by a growing share of issues of European countries, Japan, and other relatively new borrowers.

In the first half of 1962 a marked rise in foreign bond issues in the United

(Continued on page 32)

Table 6.—Portfolio and Short-Term Private Capital Outflows, 1960 and 1961

(Billions of dollars; inflow to U.S. (—))

Area and country	Total	Net purchases of foreign securities		Other medium-term loans (net)	Short-term capital (net)	
		Bonds	Stocks		Banks	Corporate and other
<b>Total</b>						
1961	2,478	890	364	253	1,063	409
1960	2,189	652	98	200	994	245
<b>Europe</b>						
1961	424	14	241	117	49	3
1960	357	28	86	16	180	240
<b>United Kingdom</b>						
1961	—87	—6	58	—3	—85	—71
1960	306	37	—42	—31	126	210
<b>Canada</b>						
1961	700	190	71	—11	110	244
1960	370	202	—9	—33	140	60
<b>Latin American Republics</b>						
1961	256	17	5	97	191	16
1960	439	80	9	160	175	10
<b>Other countries</b>						
1961	1,118	208	37	80	777	40
1960	705	111	11	67	480	30
<b>Japan</b>						
1961	727	50	—	14	630	24
1960	108	—1	1	2	462	14
<b>International Institutions</b>						
1961	—20	—20	—	—	—	—
1960	118	118	—	—	—	—



## U.S. Investments—(Con. from p. 24)

States occurred, including nearly \$200 million offered by European borrowers, of which about half was purchased by U.S. residents, the remainder being purchased by European and other foreign investors. It is noteworthy that the interest cost on new European bonds offered in 1961 and 1962 has ranged from about 5½-6 percent for government issues to well over 6 percent for corporate issues, and interest costs on Japanese issues have ranged from 6½ percent to over 7½ percent. These interest costs compare with a yield of a little over 5 percent for lower grade domestic corporate bonds. This gap indicates both the relative attractiveness of foreign issues for U.S. investors and the relatively high cost of alternative financing in foreign capital markets.

Foreign equity securities, particularly European corporate stocks, have also attracted substantial amounts of U.S. capital. In 1961 such purchases amounted to over \$350 million, of which three-quarters went to Europe. This flow diminished quickly in the first half of 1962, as stock prices tumbled in all principal markets, but major European companies offered large blocks of stock in the U.S. market in June and August.

## Foreign Investments in the United States

Although small by comparison with U.S. investments abroad, the flow of foreign capital to the United States for direct investments and purchases of U.S. securities has been of some importance, averaging over \$0.4 billion annually beginning in 1955.

Foreign direct investments in the United States accounted for about 35 percent of these inflows, and undistributed profits of these enterprises currently amount to over \$0.2 billion annually. Detailed data on these investments, with a book value of \$7.4 billion at the end of 1961, are given in a new Office of Business Economics publication soon to be issued entitled *Foreign Business Investments in the United States*.<sup>1</sup>

The flow of foreign capital into U.S. corporate stocks has been large but irregular since the middle 1950's, with net liquidations taking place at times of market instability in the United States such as 1957-58, the last half of 1960, and in June 1962. In 1961, there were net foreign purchases of U.S. corporate stocks of over \$0.3 billion, but the major factor in the rise of foreign holdings of U.S. corporate stocks to a value of \$11.8 billion at the end of the year was a market appreciation which added over \$2.1 billion. Nearly all of this market gain was wiped out in the first half of 1962.

(Continued from p. 5)

## National Income Rise

Under the stimulus of moderate second quarter increase in output, national income moved ahead. The second quarter rise was substantially larger than that in the winter quarter. However, this more favorable comparison, in part, reflected reductions that occurred in a number of commodity producing industries in January as weather conditions early in the year curtailed some lines of activity. Moreover, a large part of the second quarter gain was achieved in the initial month of the period, with the rise tapering in more recent months.

The larger volume of employee compensation was the main element in the increased income flow in the past quarter. Payrolls and other employee benefits rose \$6½ billion. Corporate profits appeared to have held fairly close to the \$50½ billion (annual rate)

of the first quarter, but it will be a while yet before sufficient data are available to measure the exact change. Other income components registered only small advances.

Almost half of the increased wage payments stemmed from the manufacturing industries where employee compensation currently amounts to more than \$100 billion a year. Within manufacturing, largest gains occurred in the durable goods industries, particularly in the two machinery groups, fabricated metals and automotive equipment. The bulk of this rise reflected employment gains with a longer work week and higher hourly earnings each contributing lesser amounts. A dampening factor was the continued decline during the quarter in the output of primary metals. Among nondurable goods industries, payroll increases were more moderate and reflect higher employment, hours, and earnings in roughly equal proportions.

Table 7.—International Investment Position of the United States, by Area, 1960-61  
(Millions of dollars)

Type of investment	Total		Western Europe		Canada		Latin American Republics		Other foreign countries		International institutions and unallocated	
	1960*	1961*	1960*	1961*	1960*	1961*	1960*	1961*	1960*	1961*	1960*	1961*
U.S. assets and investments abroad, total	71,497	71,331	26,487	21,189	17,274	16,220	13,566	14,274	12,746	15,117	7,431	7,528
Private investments	54,393	55,517	11,379	12,337	17,371	16,224	11,581	11,570	7,854	9,445	2,586	2,532
Long-term	48,410	48,927	9,956	11,340	16,600	16,040	9,872	9,704	6,472	7,361	2,586	2,581
Direct	29,776	34,084	4,481	7,055	11,196	11,861	8,387	8,106	5,004	5,800	1,415	1,403
Foreign dollar bonds	4,861	5,300	337	400	2,623	2,704	240	245	747	827	1,024	1,018
Other foreign securities	4,847	5,013	1,306	2,000	2,567	3,233	83	65	183	230	68	60
Other	3,074	3,328	1,129	1,289	312	302	1,192	1,288	418	408	—	—
Short-term	4,083	5,590	1,221	1,307	671	1,184	1,629	1,614	1,382	2,104	—	1
U.S. Government credits and claims	21,084	21,814	9,263	8,452	3	6	2,861	2,826	4,896	5,866	4,822	4,394
Long-term	18,212	18,874	8,458	7,810	—	—	1,880	2,621	2,849	3,860	4,816	4,275
Foreign currencies and short-term claims	2,872	2,940	760	633	3	5	178	174	1,047	2,107	7	21
Foreign assets and investments in the United States, total	44,670	49,918	24,044	25,253	6,184	6,754	1,723	4,699	4,843	4,544	4,060	6,186
Long-term	18,418	21,451	12,998	16,379	3,388	3,638	1,153	1,353	889	1,038	120	142
Direct	8,010	7,362	4,707	5,128	1,034	1,860	130	130	120	144	—	—
Corporate stocks	0,302	11,808	0,830	8,706	1,280	1,451	728	927	400	604	26	50
Corporate, state and municipal bonds	640	643	440	435	5	2	75	78	30	40	81	62
Other	1,557	1,008	1,008	1,000	140	186	220	220	101	701	—	—
Short-term assets and U.S. Government obligations	26,252	28,467	11,046	12,073	2,846	3,146	2,570	2,480	3,954	3,506	4,840	5,044
Private obligations	12,127	14,119	4,896	6,418	1,064	2,070	2,208	2,235	2,710	2,974	320	408
U.S. Government obligations	14,125	14,453	6,150	5,655	912	1,067	362	451	1,244	832	4,520	4,636
Long-term	2,270	3,781	809	708	327	340	141	333	114	78	891	1,231
Short-term	11,849	11,872	5,341	6,797	585	727	221	118	1,130	752	3,629	3,406

\* Revised.

\* Preliminary.

1. Data for Cuba are omitted in 1961; the 1960 total for U.S. direct investment in Cuba was \$680 million (book value). See notes to table 2 for other adjustments.

2. Represents the estimated investment in shipping companies registered in Panama and Liberia.

3. Consists primarily of securities payable in foreign currencies, but includes some dollar obligations, including participation in loan made by the International Bank for Reconstruction and Development.

4. Total includes estimated foreign holdings of U.S. currency: 1960, \$900 million; 1961, \$913 million; not distributed by area.

\* Summary results were published in the *Survey of Current Business* for October 1961.